

Investment Strategy

FBMKLCI December 2021 Review

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FBMKLCI	1,526.87
Target	1,600.00 ↔

Yesterday was the cut-off date for the FTSE Russell Malaysia's final semi-annual review of 2021. Data as of yesterday's close will determine the updated constituents of the FBM Index series that will be published on Thursday 2nd December and to be implemented effective Monday 20th December. Among the big caps, we expect **HAPSENG (UNRATED)** to be removed from the FBM Index series on the grounds of falling below the required liquidity threshold. As such, it will most likely be replaced in the FBMKLCI by **INARI (OP; TP: RM4.80)** which is the largest non-FBMKLCI constituent with the requisite free float and liquidity.

Expect a change to FBMKLCI makeup in December: Details of the review outcome will be available after the close of business on 2nd December. Constituent changes will be reflected in the index at the start of trading on Monday 20th December.

At the closing prices as at yesterday's cut-off date, HAPSENG was ranked 25th by market cap (exhibit 1) but likely to be disqualified on grounds of insufficient liquidity. The ground rules state that to remain in the FBM Index series, a member stock must turn over at least 0.04% of its free-floating shares in issue, based on its median monthly trading volume for at least 8 of the 12 months prior to the semi-annual review. For HAPSENG, trading liquidity fell below the required threshold towards the end of review period for 5 straight months. The median turnover exceeded 0.04% only for 6 of the last 12 months (exhibit 2). As such, it appears to us that HAPSENG has failed to satisfy the minimum liquidity threshold.

By default, INARI is expected to replace HAPSENG in the FBMKLCI. This is due to INARI being currently, the largest non-FBMKLCI member by market cap with the requisite free float and liquidity. If admitted, INARI would be the sole technology component in the index. Based on INARI's represented index shares of 2,275.58m at the current price of RM4.24 versus HAPSENG' 649.52m at RM7.70, we estimate that INARI would come in at around 1.97% weight versus HAPSENG exiting at 1.03% weight. The final figures will however, be based on closing prices on Friday 17th December, after which the new list will be first reflected at the start of trading on Monday, 20th December.

At RM4.24, INARI is 30th largest by market cap, it needs to remain at least above 36th to avoid direct removal in the next review round: Whether INARI can remain in the FBMKLCI beyond just one semi-annual period would depend on, among others, whether it can remain above 36th position in size; dropping below which it will be dropped according to the rules. This was the case with SUPERMX (MP; TP: RM2.15) which fell off in the June 2021 review just six months after admission in December 2020. Our tech analyst Samuel Tan is bullish on INARI, setting a target price of RM4.80 (13% upside), reinforcing our confidence that INARI is likely to remain in the FBMKLCI for the long haul.

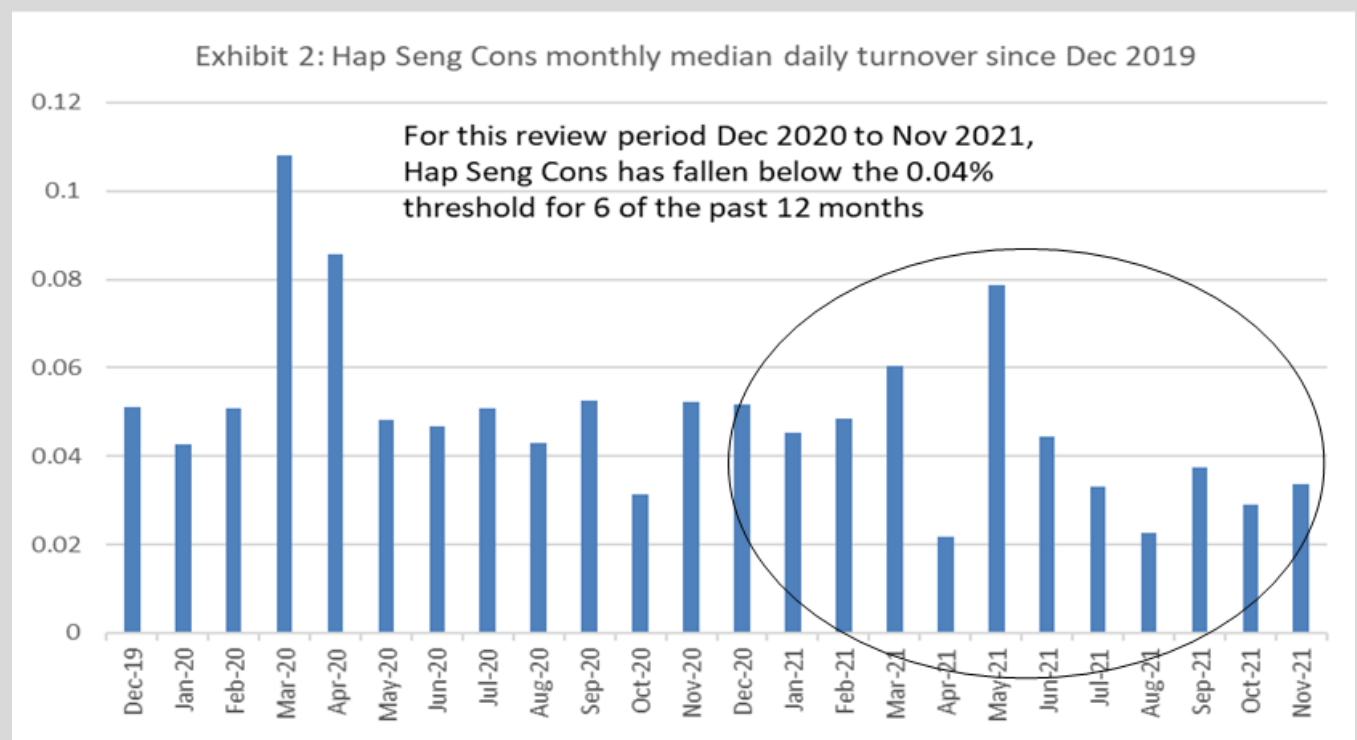
23 November 2021

Exhibit 1: Top 40 ranking by market cap as at 22 Nov 2021

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	Name	Price	Market Cap		Name	Price	Market Cap
1	Malayan Banking Bhd	8.15	95,935,070,208	21	Telekom Malaysia Bhd	5.58	21,132,724,224
2	Public Bank Bhd	4.07	79,001,518,080	22	Petronas Dagangan Bhd	19.90	19,670,388,736
3	Petronas Chemicals Group Bhd	8.30	66,480,001,024	23	Hong Leong Financial Group Bhd	17.10	19,469,148,160
4	IHH Healthcare Bhd	6.62	57,487,654,912	24	Genting Bhd	4.98	19,291,385,856
5	Tenaga Nasional Bhd	9.50	54,684,172,288	25	HAP Seng Consolidated Bhd	7.70	19,195,353,088
6	CIMB Group Holdings Bhd	5.16	52,129,402,880	26	Top Glove Corp Bhd	2.24	18,496,399,360
7	Press Metal Aluminium Holdings Bhd	5.74	45,226,827,776	27	Hartalega Holdings Bhd	5.06	17,565,753,344
8	Hong Leong Bank Bhd	18.34	39,712,591,872	28	Genting Malaysia Bhd	3.07	17,298,771,968
9	Axiata Group Bhd	3.97	36,516,446,208	29	Dialog Group Bhd	2.70	15,967,984,640
10	Maxis Bhd	4.54	35,766,059,008	30	Inari Amertron Bhd	4.24	15,686,596,608
11	DiGi.Com Bhd	4.26	33,354,749,952	31	Sime Darby Bhd	2.22	15,033,607,168
12	Petronas Gas Bhd	16.40	32,451,203,072	32	Westports Holdings Bhd	4.20	14,424,299,520
13	Nestle Malaysia Bhd	133.50	31,376,099,328	33	QL Resources Bhd	4.80	11,924,921,344
14	MISC Bhd	6.90	30,844,483,584	34	AMMB Holdings Bhd	3.17	10,700,729,344
15	Sime Darby Plantation Bhd	4.01	27,386,230,784	35	Malaysia Airports Holdings Bhd	6.27	10,569,052,160
16	PPB Group Bhd	17.10	24,354,910,208	36	Malaysian Pacific Industries Bhd	47.98	9,527,138,304
17	IOI Corp Bhd	3.86	23,764,242,432	37	Fraser & Neave Holdings Bhd	25.50	9,470,221,312
18	MR DIY Group MBhd	3.61	22,668,185,600	38	ViTrox Corp Bhd	20.20	9,350,892,544
19	Kuala Lumpur Kepong Bhd	20.80	22,204,471,296	39	Greotech Technology Bhd	7.12	8,839,944,192
20	RHB Bank Bhd	5.33	22,123,184,128	40	Sunway Bhd	1.70	8,311,418,368

Source: Bloomberg

Exhibit 2: Hap Seng Cons monthly median daily turnover since Dec 2019



Source: Bloomberg, Kenanga Estimates

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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